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ABSTRACT

This paper presents evidence on the high unemployment rates for black youths and considers reasons for the widening gap in the labor market experience of black and white youth. The paper consists of five sections. In the first, historical evidence on the declining rate of black youth employment over the last 25 years is summarized. In the second section, an explanation is given for why the orthodox labor market theory cannot account for these declines. In the third, an alternative theory is presented to account for racial differences in job-finding success and, in the fourth section, existing empirical evidence is reviewed within the context of that theory. Finally, the fifth section presents conclusions and suggestions for additional research. (KH)

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THE SOURCE OF MINORITY YOUTH EMPLOYMENT PROBLEMS

By

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and
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May 1983

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INTRODUCTION

During the past twenty-five years the labor market has evidenced increasing difficulty accommodating the employment needs of black youth.[1] Unemployment rates for black youth, which were high in the 1950s, have increased over time, both absolutely and relative to those of white youth. By 1981, four out of ten black teenagers who sought jobs could not find them; the ratio was five out of ten in some central city areas. Only 22 percent of all blacks between the ages of 16 and 19 had jobs, compared to 45 percent of the entire U.S. population of that age. Moreover, young blacks have higher relative unemployment rates and lower employment-population ratios across all education, income, location, age, and sex groupings.

While the facts on high unemployment among black youth are fairly well known, what is less known by the general public (but has become increasingly evident to scholars working in this area) is the disturbing fact that--in sharp contrast to the experience of their white counterparts--the labor market position of black youth has deteriorated dramatically over much of the last three decades. Trends in aggregate unemployment rates and employment-population ratios for black youth relative to these same indicators for white youth reveal an undeniable erosion; and again, these trends are in evidence across all education, income, location, and sex groupings.

Perhaps even more disturbing is the mounting evidence that black youths are more seriously affected by adverse early labor market

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[1] The term youth will be used throughout the paper to refer to the age group 16 to 24, which includes two subgroups: teenagers (16 to 19 years of age) and young adults (20 to 24 years of age).

experiences than white youth. More specifically, it has been found that time spent unemployed during the early years has deleterious effects on black youths' future earnings and employment. In this light, the deteriorating labor market position of black youths must be considered of very ominous portent for the success of our society's efforts to eliminate racial disparities in employment in the future. Today's youths are tomorrow's adults, and the continuation of the trends cited make it likely that many of the present generation of black youths will experience great difficulty leading productive lives as adults.

Moreover, not all of the negative effects of poor initial encounters in the labor market are confined to the future. The most obvious consequence of unemployment is, of course, loss of income, and here again the impact of unemployment may be greater for the families of black than of white youth. Whereas 17 percent of unemployed white youth come from poverty families, 52 percent of black youth come from poverty families.[2] In addition to the loss of income, unemployment may also impose psychic costs in the form of lowered self-esteem or sense of self-worth.[3] There is also some evidence that unemployment is associated with a higher incidence of criminal and other antisocial behavior.[4]

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[2]Lester C. Thurow, "Youth Unemployment." Rockefeller Foundation Working Paper. New York, September 1977.

[3]Elliot Liebow, Talley's Corner (Boston, Massachusetts: Little, Brown & Co., 1967).

[4]Daniel Glaser, "Economic and Sociocultural Variables Affecting Rates of Unemployment, Delinquency, and Crime," in the Conference Report on Youth Unemployment: Its Measurement and Meaning (Washington, D.C.: U.S. Department of Labor, 1978).

The factors most often cited as contributing to the widening gap in the labor market experience of black and white youth are:

- o increasingly different expectations and attitudes toward work between black and white youth;
- o the employment decreasing effects of the minimum wage;
- o differential access to job information between black and white youth;
- o the movement of industry out of central cities, reducing the number of entry-level jobs available to residents left behind;
- o an increasing difference in the employability characteristics of black and white teenagers;
- o differential growth rates in the black and white youth populations;
- o increased competition for entry-level jobs from other demographic groups, e.g., adult white females; and
- o an increase in labor market discrimination against black youth.

However, the substantial volume of empirical work which includes consideration of these factors does not satisfactorily explain the secular deterioration in the labor market position of black youth. The major hypothesis of this paper is that the orthodox labor market theory that has been used to analyze this problem is inappropriate and the situation can best be explained in an alternative framework.

The paper consists of five sections. In the first section the historical evidence on the employment situation of black youths is summarized. In the second section an explanation is given for why the orthodox labor market theory can not account for the worsening employment position of black youth. In the third section an alternative theoretical framework is presented and in the fourth section the existing empirical

evidence is reviewed in the context of that theory. The fifth section presents conclusions and suggestions for additional research.

RACIAL DIFFERENCES IN THE YOUTH LABOR MARKET

Youths of all races have higher unemployment rates than adults. This is due, in part, to the time required to make the transition from school to work and, in part, to the greater instability associated with the youthful stage of life. Given the present paucity of institutional bridges between school and work and the natural desire of young persons to "shop around" before settling down, the relatively high unemployment rates experienced by youth are to be expected. What is not to be expected, on either basis, is the persistent and growing disparity between the unemployment rates and employment-population ratios of black and white youth.

Youth Unemployment Levels in Black and White

Over the past twenty-five years, black youth have generally experienced higher unemployment rates than white youth.[5] Moreover, for those in the 16 to 19 age group there has been a marked secular increase in nonwhite unemployment rates, in contrast to relative stability for white teenagers of both sexes.[6] Both the differential and the trend are clearly shown in Figure 1.

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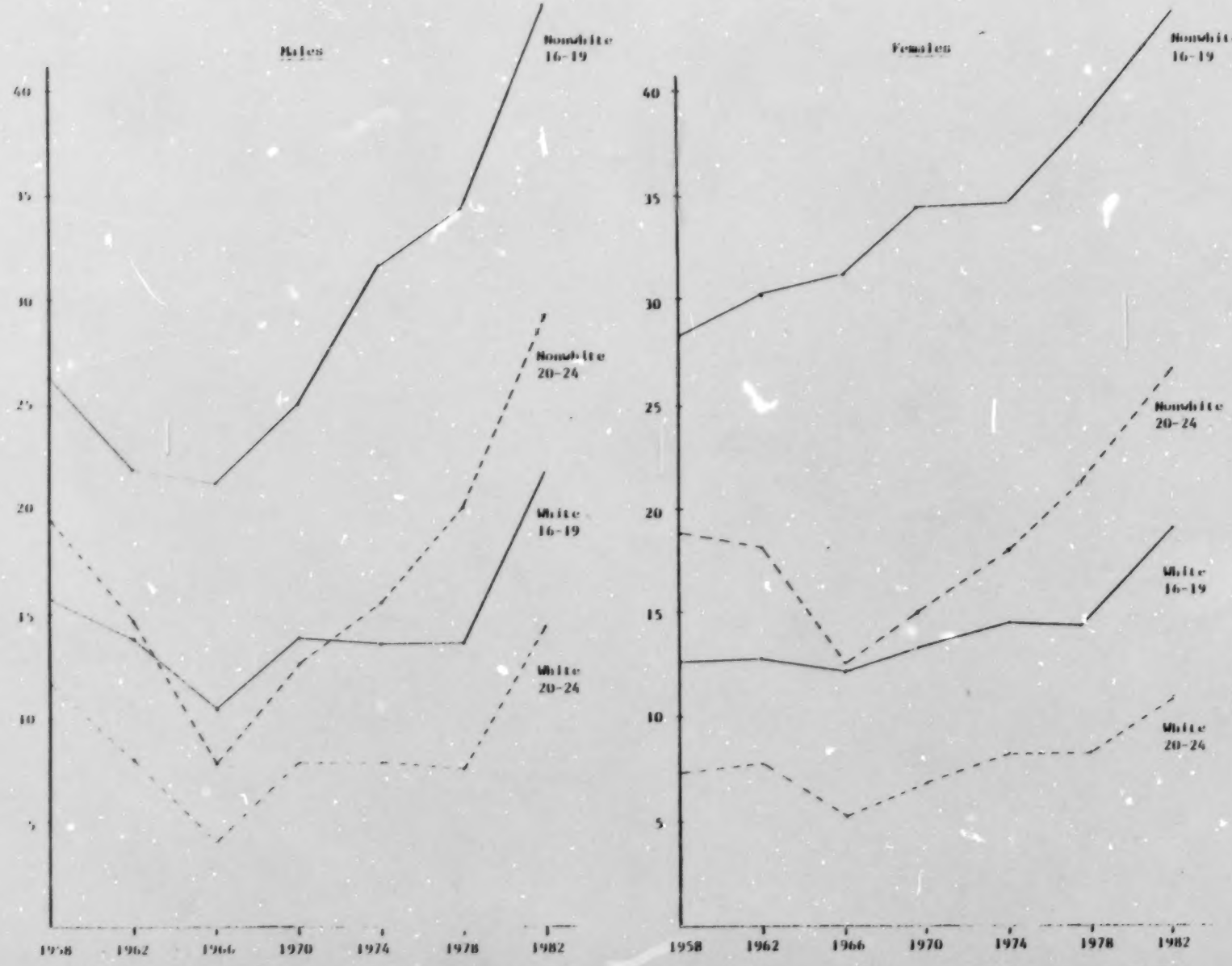
[5]Statistics presented here are taken from David H. Swinton, Towards Defining the Universe of Need for Youth Employment Policy (Waltham, Massachusetts: Brandeis University Center for Public Service, 1980).

[6]The upturn in white rates for 1982 is primarily cyclical in origin, reflecting the severe recession.

FIGURE 1: UNEMPLOYMENT RATES FOR YOUTH
1958 to 1982



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A number of demographic factors affect unemployment rates among youth. A comparison of the trend lines for whites and nonwhites shows that for each age and sex group unemployment rates for blacks (over 90 percent of the nonwhite group) are approximately two times the rates of corresponding white groups. The greatest racial disparities exist between black and white females, with female teenagers having the largest overall racial disparity. The group experiencing the lowest racial disparity is young adult males.

The impact of sex on unemployment rates can be seen by comparing the left side of Figure 1 with the right side. Among whites, the rates for females have been approximately the same as those for males in the same age group. On the other hand, both black teenage and young adult females were about 20 percent more likely to be unemployed on the average than their black male counterparts during the past twenty-five years. Thus while there are no consistent sex differentials in unemployment rates among young whites, there were differentials unfavorable to women in the unemployment experiences of young blacks.

As might be expected, the unemployment rates of young adults are significantly lower than those of teenagers. A comparison of the trend lines shows a substantial age differential for each race and sex group. The average rates for teenagers were from 75 to 100 percent higher than those for young adults of the same race and sex group, and for all groups the young adult rate was substantially lower than the teenage rate in each year of the twenty-five year period.

These numbers make it clear that black females are the least favored group in the labor market in terms of unemployment. It is also clear that

there is essentially no difference in the overall unemployment situation of white male and female youth. Moreover, the numbers highlight the overall unfavorable impact that being black has on the labor market position of black youth for each age and sex group. In fact, the average unemployment rate for each black group was higher than the average for the most disadvantaged white group.

As noted earlier, the unemployment rates in Figure 1 show an increase in unemployment rates for black youth over time. In previous work we have estimated the significance of both cyclical and secular changes in the relative unemployment rates of black to white youth between 1958 and 1978.[7] The regressions indicated that the unemployment rates of black youth of both sexes were much more sensitive to changes in the overall unemployment rate than the corresponding white youth rates. The time trend analysis showed, at most, a very slight deterioration in the unemployment experiences for white youth over this 21-year period and a marked deterioration for nonwhite youth, especially teenagers.

Employment Population Ratios for Black and White Youth

The evidence from unemployment statistics alone is of limited value in assessing the labor market position of black youth because the unemployment rate, as measured, confounds the effects of fluctuations in participation rates with the effects of fluctuations in unemployment. This problem is especially serious in interpreting youth unemployment statistics in view of the volatility of youth labor market flows.[8] "Youth are particularly

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[7] Swinton, Towards Defining the Universe of Need.

[8] See e.g. Kim Clark and Lawrence Sommers, "The Dynamics of Youth Unemployment." Working Paper No. 274. (Cambridge, Mass.: National Bureau of Economic Research, August 1978).

responsive to fluctuations in the demand for labor. Consequently, measuring changes in labor market position by using changes in unemployment rates alone is inadequate. The employment-population ratio (E/P) provides a supplementary indicator of youth labor market experiences by giving us a measure of the proportion of a population that is actually employed.

In Figure 2, we have presented employment-population ratios for the same twenty-five year period, 1958 to 1982. As the graphs show, the employment-population ratios serve to reenforce the position that being black has an adverse effect on the labor market position of youth. In virtually every year for which data are presented, blacks in each age-sex category were less likely to be employed than the comparable white group. Employment-population ratios were lowest for nonwhite teenage women, with only one in five employed.

An analysis of the trends in these ratios completed for an earlier study (covering 1958 to 1978) shows decline or stagnation in the employment-population ratio for all the nonwhite groups, in contrast to an increase in the ratios for most white youth groups.[9] Simple linear time trend analysis indicates strong positive trends for each white group, with the exception of white male young adults (Table 1). Since unemployment rates were relatively stable over the time period, this trend suggests that the labor market is having little trouble absorbing the increasing proportion of the white youth population that is choosing to participate in the labor market.

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[9]David H. Swinton, "Dimensions and Causes of Youth Unemployment," in Symposium on Minority Youth and Urban Disadvantaged Youth (Washington, D.C.: Institute for Economic Development, 1980).

FIGURE 2: EMPLOYMENT-POPULATION RATIOS FOR YOUTH
1958 to 1982

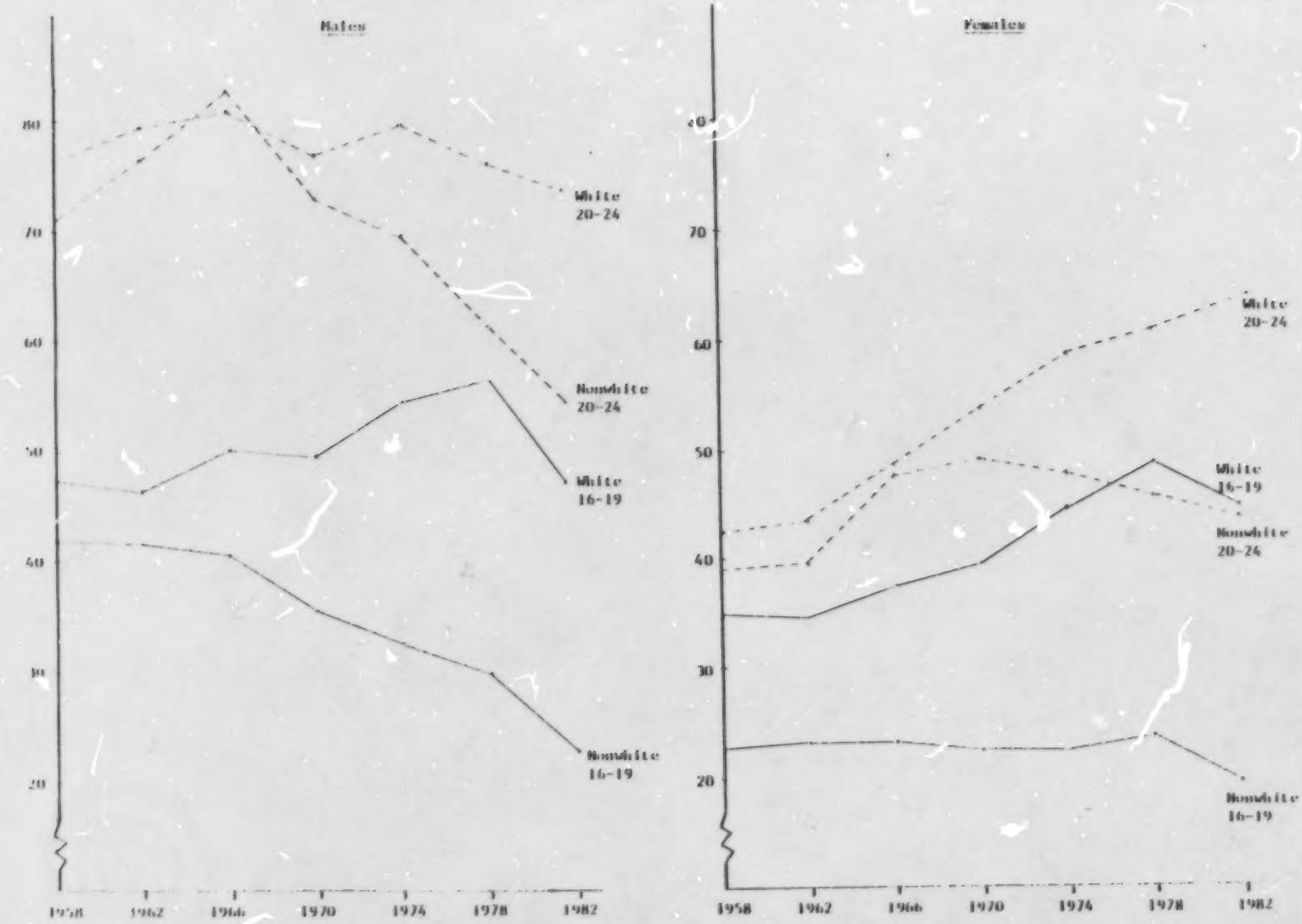

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TABLE 1

REGRESSION ESTIMATES[a] OF TIME TREND
IN EMPLOYMENT-POPULATION RATIOS,
1958 TO 1978, BY RACE, SEX, AND AGE

	$\hat{\alpha}$	$\hat{\beta}$	t-Statistic
White Males			
16 to 19	45.02	.435	6.52*
20 to 24	80.02	-.148	2.35**
Nonwhite Males			
16 to 19	44.71	-.783	10.49*
20 to 24	81.69	-.818	4.69*
White Females			
16 to19	29.16	.695	6.81*
20 to 24	38.84	.108	27.24*
Nonwhite Females			
16 to 19	22.85	-.059	.95
20 to 24	41.17	.348	2.97**

SOURCE: "Dimensions and Causes of Youth Unemployment."

[a]Estimated from equation: $E/P = \hat{\alpha} + \hat{\beta}t + ei$.

*Significant at .01 level or higher.
**Significant at .05 level.

The estimates for black youth reveal clear deterioration in their relative position. The coefficient for nonwhite female teenagers is negative, small, and insignificant. This reflects stagnation in the ratio for this group. In view of the fact that black female teenagers started the period with significantly smaller employment-population ratios than white female teenagers and the fact that white female teenagers have made impressive gains during the period, the relative position of blacks deteriorated substantially. Black female young adults made modest gains over the period taken as a whole. However, these gains were all made before 1969. Since 1969, the employment-population ratio for black female young adults has declined. The time trends for black male youth of both age groups are significant, negative, and large.

The up-shot of these trends is that the labor market position of black youth, as measured by the proportion employed, has declined significantly relative to the position of whites. This is shown clearly in Figure 1. It is also obvious from these data that most of the relative decline for both black male and black female youth has occurred since 1969. By 1977 the proportion of black male teenagers working was only one half the proportion of white male teenagers working, the proportion of black female teenagers working was less than one half the proportion of white females and the proportion of black young adults of both sexes working was about three quarters that of white young adults.

It has been asserted that a proportion of the difference in the black and white unemployment situations can be accounted for by differences in school enrollment. Since 1950 the school enrollment rates for all cohorts have increased significantly. The enrollment rates for black youth have

increased more rapidly than the enrollment rates for white youth. As a consequence, although all black youth cohorts had lower enrollment rates than whites in the 1950s, by 1977 some of the younger cohorts, particularly males, were enrolled at higher rates than whites and the others had almost reached parity in enrollment. However, data presented in Table 2 indicate that after adjusting for school enrollment status, black youth of each demographic group suffer higher unemployment and lower employment-population ratios than do corresponding white youth. Moreover, the relative disadvantage is greater for in-school youth, especially at the younger ages.

Conclusion

In summary, the evidence shows no significant change in the unemployment rate for white youth over the past twenty-five years even with an increase in their employment population ratio, indicating a significant improvement in their labor market position. The story for black youth is almost diametrically opposite. While black youth, like white youth, have always had relatively high rates of unemployment, the evidence from the unemployment rates for both sexes indicates a relative secular deterioration in their labor market position. Analysis of employment-population ratios indicates the extent of that deterioration, showing a relative decline in employment-population ratios for all black groups and an absolute decline for black males. The racial disparity in both absolute labor market position and secular trend is greatest for black teenagers, both male and female. Moreover, these racial differentials in unemployment rates and employment-population ratios exist across all education, income, and location groupings. In each instance, the situation has worsened

TABLE 2

EMPLOYMENT-POPULATION RATIOS AND UNEMPLOYMENT RATES FOR YOUTH BY SCHOOL ENROLLMENT STATUS IN 1977

	16 to 17		18 to 19		20 to 24	
	E/P Ratio	Unemployment Rate	E/P Ratio	Unemployment Rate	E/P Ratio	Unemployment Rate
Males Enrolled						
White	42.9	14.1	43.4	10.2	52.0	6.4
Black	14.3	37.2	23.9	37.5	33.1	19.6
Males Not Enrolled						
White	57.3	30.6	82.9	11.1	88.7	7.3
Black	32.6	41.7	49.8	39.3	70.5	20.6
Females Enrolled						
White	36.7	15.3	41.8	13.7	55.3	6.3
Black	7.1	51.3	20.2	31.6	29.4	23.2
Females Not Enrolled						
White	45.9	21.6	61.2	14.7	64.1	9.4
Black	17.2	50.0	33.7	44.4	47.5	26.7

SOURCE: Based on data from "Towards Defining the Universe of Need for Youth Employment Policy," Tables 9 through 12.

absolutely and relatively over the past thirty years with an accelerated deterioration in black youth labor market position in the 1970s.

The statistics presented above make it clear that black youth are experiencing serious problems in the labor market. The importance of resolving these problems is self-evident. However, before effective strategies and policies can be developed, there must be a good understanding of the cause of youth unemployment. Past research suggests a variety of explanations but has so far failed to provide any convincing overall explanation for the labor market experiences of black youth. The existing empirical literature has largely been ad hoc and not well integrated. As a consequence, neither the validity nor the relative importance of the various factors has been convincingly established. Thus no firm basis for policy formulation exists.

In the next two sections of this essay the difficulty of explaining minority youth labor market experiences is explored. The discussion begins with a brief exposition of the orthodox theory which has heretofore guided most theoretical and empirical work. This discussion points out the inadequacies of this framework and proposes an alternative framework for explaining the unemployment problems of black youth. The empirical literature is then reassessed in the light of the alternative framework.

ORTHODOX LABOR MARKET THEORY

The orthodox theory of the labor market can be summarized by two basic propositions.[10] First, the demand for labor is a decreasing function of the wage rate and the supply of labor is an increasing function of the wage rate. Second, whenever the supply of labor is not equal to the demand for labor, the wage rate will automatically adjust to equilibriate the quantities demanded and supplied. Thus, in the traditional vision the invisible hand functioning through normal market operations is expected to ensure the employment of all labor willing to work at the wage prevailing in that market. There are only two explanations for unemployment that are consistent with the orthodox theory. First, some workers may not be willing to work at the existing wage rate. Second, extra-market intervention may prevent the market wage adjustment mechanism from operating.[11]

In the simplest version of orthodox theory, where black and white workers are assumed to be homogeneous and the demand for labor is undifferentiated, the only factor that could explain existing racial differentials in employment would be a greater unwillingness of minority

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[10]The orthodox theory is here taken to be that perspective in economics which argues that the economy may be analyzed as if it conformed to the perfectly competitive economic model. Although orthodox theorists recognize market imperfections, these are seldom incorporated into policy analysis or other empirical work.

[11]Although orthodox theory recognizes the existence of market imperfections, the "as if" assumption eliminates or rules out the possibility of taking these into account in explaining racial inequity. Since the market must be presumed to operate as if it is perfect, any failure to achieve equilibrium outcomes must be attributed to extra-market intervention.

youth to work at the prevailing wage rate. Extra-market interference with the wage adjustment mechanism (e.g., the establishment of a minimum wage) would not be expected to have any greater effect on black youth than on white youth given homogenous workers and jobs.

Conventional theory has been extended to recognize that both workers and jobs are differentiated. Jobs are differentiated by the types of tasks and working conditions, and workers are differentiated by productive potential. These differences in productive capacity may arise because of differences in human capital, innate ability, motivation, etc. Given this extension it is assumed that the demand for workers is a function of their productivity on particular jobs. Employers would presumably be willing to pay more to hire a more productive worker or at least give preference to a more productive worker at any given wage rate. However, while this theory might be capable of explaining racial differences in pay and occupational distributions, allowing for human capital differences does not seem to be sufficient to explain racial differentials in youth unemployment within the context of the orthodox model.

It might seem at first glance to be obvious that workers of lower productivity should be employed at lower rates than workers of higher productivity. However, if the orthodox version of automatic wage adjustment is correct, then the wage should still be able to adjust to equilibrate the supply and demand for lower productivity workers. The existence of productivity differences therefore adds nothing to the explanation of unemployment differences unless workers of lower productivity are less willing to work for wages which equal their productivity, or unless there are rigid wages imposed from outside the

market that have a disproportionate impact on workers of lower productivity. In any case, the existence of productivity differences would only add to the explanation of existing racial differences if black workers were consistently and significantly less productive than white workers.

A second extension of the traditional theory has also been offered specifically to help explain racial differences. This extension is built around an hypothesis advanced by Gary Becker that white employers are assumed to have a "taste" against black workers.[12] As a result of this taste, black workers appear more costly in utility terms than white workers of equivalent productivity. Given this, individual white employers are assumed to discriminate against black workers. This discrimination is postulated to result in the observed labor market inequalities. However, just as in the case of productivity differences it can be shown that this extension is also not able to reconcile racial differences in employment and unemployment with the orthodox model.[13] As in the previous situation, the postulated wage adjustment mechanism ought to equilibrate the supply of black workers with the demand for black workers by lowering the wage paid to black workers. Again the employment differential exists only if there is an unwillingness to work among black workers or if the wage adjustment mechanism is constrained from outside the labor market.

Thus, there are only two explanations for racial differences in employment that are consistent with the orthodox version of a

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[12]Gary S. Becker, The Economics of Discrimination (Chicago, Illinois: University of Chicago Press, 1957).

[13]David H. Swinton, The Logic of Economic Discrimination in Non-Competitive Markets (Ph.D. dissertation: Harvard University, 1974).

self-equilibrating labor market. Either black workers are less willing to work for market or existing wages than white workers or there is an external constraint on wage flexibility in combination with productivity differences and/or discrimination. It seems to us that these two explanations are not adequate.

Willingness to Work

The hypothesis that black youth are less willing to work for prevailing wages has taken various forms in the literature. Piore, for instance, suggests that as a result of the black protest movements of the 1960s, young blacks are increasingly inclined to refuse the menial, low-paying jobs that had been accepted by previous generations of blacks.[14] Other investigators believe that there have been changes in young blacks' attitudes towards work induced by their increased acquisition of schooling. Whatever the suggested motivating source, however, some researchers and popular commentators raise the possibility that the present employment situation of young blacks stems from their increasing unwillingness to accept representative entry-level employment opportunities in significant numbers.

However, there is no evidence that black youth are less willing to work for the prevailing wage than white youth. In fact, the latest available evidence indicates that the reservation wages for black youth are, in fact, lower than those for white youth. Moreover, black youths who are working continue to receive lower pay than white youth. Since the unemployed counted by official statistics, by definition, include only

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[14] Michael J. Piore, Birds of Passage (Cambridge, England: Cambridge University Press, 1979).

those workers who are willing to work, the high unemployment rates registered in the official statistics for black youth would seem to indicate that the unemployed are willing to work at the existing wage rates. The empirical evidence on this issue is summarized below.

In order to determine whether or not high unemployment among teenagers in the late 1960s was attributable to the unwillingness of teenagers to accept available employment at prevailing wages, Hamel, Goldberg, and Gavett examined data from two sources: (1) using the National Longitudinal Survey (NLS) data for young men (October 1967 survey week), they examined data on wages received by employed young men, the wage required by those unemployed to accept employment, and the wage required to induce persons outside the labor force to enter; (2) using the Urban Employment Survey (UES) [a survey of residents of Concentrated Employment Program (CEP) areas in six large cities], data on expected and actual earnings for the 12-month period July 1968 to June 1969 were examined for male and female employed and unemployed teeenagers (16 to 19 years old), in each area, who looked for work at any time during the year.[15]

From their examination of NLS data Hamel et al. found that:

- o "contrary to the hypothesis of unreasonable expectation, the average wage expected by unemployed men [was], within any sex-group, lower than that for the employed;"
- o that for both race groups "teenagers outside the labor force could be drawn into employment at a lower wage, on average, than that which employed teenagers receive[d] or that which unemployed teenagers expect[ed];"

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[15]Harvey R. Hamel, Melvin Goldberg, and Thomas W. Gavett, "Wage Expectations," in Youth Unemployment and Minimum Wages, Bulletin 1657 (Washington, D.C.: Bureau of Labor Statistics, 1970).

- that the average pay required or earned by nonwhite youths was lower than that required or earned by white youth in all age groups.

The examination of UES data yielded additional information on the wage expectations of minority youth since the majority of teenage residents of all six CEP areas were black or other races.[16] Again the authors found that the wage demands of both unemployed and employed minority teenagers (male and female) were not unreasonable relative to actual wage rates.

Turning now to the analysis of more recent data, we focus on the 1979 NLS Survey of Young Americans. Unlike previous NLS youth survey questions which sought to determine youths' willingness to accept available employment opportunities by focusing exclusively on reservation wages, the 1979 NLS survey sought in addition to determine youths' willingness to accept the particular "types" of jobs most often available to young persons in the labor market. More specifically, young people in the survey sample were presented seven types of work and asked whether they would be willing to accept full-time employment in these occupations at $2.50, $3.50, and $5.00 per hour. Borus analyzed these data and found with regard to minority-white differentials that:

> . . .for the five types of jobs which are often available to youth in the private sector--washing dishes, working in a factory, working as a cleaning person, working at a checkout counter in a supermarket, and working at a hamburger place--more black youth were willing to work at $2.50 an hour, and fewer black youth would not work at $5.00 an hour than was true of either Hispanic or white youth.

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[16] The proportions were as follows: Chicago, 98 percent; Detroit, 83 percent; Atlanta, 82 percent; New York City, 69 percent; Houston, 60 percent; and Los Angeles, 52 percent. Nearly half the teenage residents of the Los Angeles area and about one-fifth of the Houston area population were of Mexican decent and nearly one-fifth of the New York City teenagers were Puerto Rican.

> Moreover, these differences were not due to age, educational attainment, enrollment status, or regional differences between minority and white youth. Regression analysis holding these factors constant found a statistically significant greater willingness of black youth to take all five of the private sector jobs at each wage rate.[17]

For the two types of public service employment opportunities--cleaning up neighborhoods and working away from home in a national forest or park--only going to national parks to work on conservation projects appeared less attractive to blacks than whites.

While the literature examining the relative willingness of black youth to work for prevailing wages is not extensive, it provides no support for the assertion that black youth are less willing to work for prevailing wages than white youth. In fact, the available evidence suggests just the opposite--that black youth continue to be more willing to accept teenage type jobs at lower wages than their white counterparts.

Effect of A Minimum Wage

The second explanation for racial differences in unemployment that is consistent with the orthodox vision of an automatically equilibrating labor market is that there is some external constraint on wage flexibility working in combination with racial differences in productivity or racial discrimination. For orthodox economists, the minimum wage is the barrier to wage flexibility most often cited. However, the minimum wage can only constrain wage flexibility in markets and for jobs where it is, in fact, effective. More precisely, where prevailing wages are above the minimum,

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[17] Michael E. Borus, "Willingness to Work," in Pathways to the Future: A Longitudinal Study of Young Americans by Michael E. Borus et al. (Columbus, Ohio: Ohio State University Center for Human Resource Research, 1980).

the minimum is not binding and therefore cannot pose a barrier to wage flexibility.

According to the orthodox vision of the labor market then, wages at all levels other than the minimum are free to adjust in order to equilibrate the demands for and supplies of workers to jobs unaffected by minimum wage legislation. Workers with the required skills wishing to obtain employment on jobs paying wages above the minimum are free to offer their labor services to employers at wages below those prevailing, but above the minimum. In this manner, the labor market will accommodate all workers with the skills and desire to perform jobs at wages at or above the minimum; those whose skills are not sufficient to justify paying them the minimum wage are not free--except in industries or occupations not subject to minimum wage coverage--to offer their labor services at wages below the minimum and must therefore remain unemployed or leave the labor force. The considerable unemployment among black youth must then come about in one of two ways: either the relative marginal productivity of most black youths is such that they cannot perform the broad range of jobs paying wages above the minimum, or the extent of employers' discriminatory tastes is such that they will only hire significant numbers of unemployed black youths at or below the minimum wage, thereby showing themselves unwilling to reap the substantial financial rewards to be had by hiring black youths at wages above the minimum but below that they might otherwise have to pay. We find little casual or substantial empirical support for either contention.

The minimum wage does little to explain either the current high level of black youth unemployment or the growing racial disparity. Fisher has observed that before September 1961, the "federal minimum wage may not have

been a very important constraint to teenage employment since the legislation to that date covered only employers specifically engaged in interstate commerce or in a closely related process or occupation directly essential to the production. . . .In 1960, 56 percent of construction, 31 percent of wholesale trade, 97 percent of retail trade, 81 percent of service jobs, and nearly all agricultural wage and salary employers were not covered by the federal minimum wage."[18] During the 1960s, although there were four increases in the level and coverage of federal minimum wages, the ratio of black to white youth employment and unemployment remained about constant over this period. And while it may be pointed out that the ratio of the minimum wage to average hourly earnings (the effective minimum wage) was declining over much of this period, this ratio declined even more during the 1970s, a period of dramatic divergence in unemployment rates and employment-population ratios for black and white youth (see Table 3).[19]

In our present day economy most jobs have wages above the minimum. In fact, most teenagers are employed on jobs at wages above the minimum. Examining wage rates for youths 14 to 21 years of age in 1979, Shapiro found mean wage rates exceeded the minimum of $2.90 per hour in ten of

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[18]Alan A. Fisher, The Problem of Teenage Unemployment (Ph.D. dissertation: University of California at Berkeley, 1973).

[19]Recent work by Cogan suggests that the minimum wage, in combination with the decline in agricultural employment, explains the growing disparity. Yet even he concedes that it cannot explain the continued decline in the 1970s. See John F. Cogan, "The Decline in Black Teenage Employment: 1950-70," The American Economic Review 72(September 1982):621-38. For further discussion of Cogan's work, see Lynn C. Burbridge, "The Distribution of Young Workers in the Labor Force by Race and Sex: An Analysis of Industries and Occupations, 1950-1970" (Washington, D.C.: The Urban Institute, 1983).

TABLE 3

MINIMUM WAGE AS PERCENT OF AVERAGE HOURLY EARNINGS
OF PRODUCTION WORKERS IN INITIAL AND FINAL YEARS

Year	Regular Minimum Wage	Initial Year	Final Year
1950 to 1956	$0.75	52%	40%
1956 to 1961	1.00	53	45
1961 to 1963	1.25	56	53
1963 to 1967	1.40	59	46
1968 to 1974	1.60	53	38
1974	2.00	47	47
1975	2.10	46	46

SOURCE: Lester Thurow, "Youth Unemployment," The Rockefeller Foundation, September, 1977.

twelve occupational categories. Furthermore, less than 9 percent of youth were employed in the two occupations for which mean wages were below the minimum.[20]

It has been asserted that black youth are not productive enough to be employed in these jobs. However, many of these jobs do not require a great deal of skill. Both the Dictionary of Occupational Titles and the Occupational Outlook Handbook continue to make the point that most jobs in the labor market, not simply entry level jobs, can be learned on the job, in a short time, and without 11 or 12 years of schooling. This would suggest that differences in educational attainment or achievement would not explain racial differences in youth employment.

In no way do we mean to imply here that young persons should not complete high school. What we are raising is the question of how much education is needed in order to perform most jobs in the economy and whether differences in cognitive ability are responsible for unemployment differentials. The point is often made, in various ways, that due to the pace of technological change in our society, those individuals who do not acquire extensive amounts of education will not be prepared to perform well on the types of jobs in the economy. Yet, this often-stated notion reveals a fundamental misunderstanding of the fact that the end result of technological advancement is to simplify, not to complicate. We see this in such easily observable jobs as check-out clerks in grocery store chains and cashiers in such fast food chains as McDonald's. While it was once the

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[20]The two occupational categories were farm laborers and private household workers. For an analysis of youth wage rates by race, age, sex, occupation, industry, and school enrollment see David Shapiro, "Youth Employment Conditions" in Borus et al., Pathways to the Future.

case that one needed to possess a fairly good knowledge of basic arithmetic and be quick in its use, in neither work is this now a necessity. In the former, technological change has given us check-out devices that automatically register the price of objects by deciphering codes on the items; the clerk need only pass the item over a scanner! At McDonald's, the clerks need only be able to recognize the "pictures" of food items sold and press the picture of the item on a color-coded grid. As for the customer's change, the clerk need only press a change button. The machine does the work!

The point that neither high quality nor great quantities of education are necessary in order to perform most jobs in the economy is brought home even more persuasively by the following excerpt which seeks to place the skill level of black American workers in international perspective:

> If any more proof is needed that persistent, high black unemployment rates and lower-paying, less-prestigious jobs are not a matter of poorer or less education,. . .,it can be found as close at hand as the nearest shopping center. Americans have long been eager to buy the goods of Western Europe. . . .For everything from scientific and precision instruments, through printing presses and other durable goods, to delicate laces and fine china, European products are in demand. While producing all of these goods, and handling all of the clerical, administrative, sales, and service functions associated with them, the Western European labor force has had markedly less schooling than that of American blacks.
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> During the 1960s, when West Germany and France enjoyed a period of almost unprecedented prosperity, consuming abundantly at home and exporting so much abroad that their own labor force proved insufficient, they relied heavily on the labor of immigrants. . . .[Yet,] in the countries from which they came, a large proportion of the population was illiterate and few had gone beyond primary school. This meant that many supposedly complex jobs were being performed by relatively uneducated workers. . . .Thus, the Eastern and Southern European workers in modern industry who fashioned goods that sold world wide did not know the host country's customs and language, were often

> illiterate in any language, and were without any industrial training whatever.[21]

In sum, there is little evidence that the existence of the minimum wage plays a major part in the high and growing black youth unemployment rate. It appears that the minimum wage is below the market wage in most jobs that youths take. Moreover, provisions which allow employers to pay student learners, apprentices, and full-time students wages lower than the minimum exist but are not fully utilized. According to Thurow, "there were 26,000 certificates of exemption that authorized the employment of 197,000 students. Only about 40 percent of these places were actually filled. If changes in the minimum actually made a big difference in employers' employment desires, there would be many more applications, plus full use of those that are presently authorized."[22]

The discussion to this point suggests that we ought to reject the orthodox model as a framework for explaining racial differences in youth employment and unemployment. In particular, we ought to dismiss the notions that the wage rate is the key variable in fixing the level of supply and demand, and that markets adjust automatically to eliminate excess supply. We turn now to alternative labor market theories and their possible contribution to explaining black-white employment differentials.

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[21]Dorothy K. Newman et al., Protest, Politics, and Prosperity: Black Americans and White Institutions, 1940-1975 (New York: Pantheon Books, 1978), pp. 84-86.

[22]Thurow, "Youth Unemployment," p. 18.

AN ALTERNATIVE LABOR MARKET THEORY

Some economists assert that the labor market is not characterized by wage flexibility but rather by a structure of wages established by social processes and maintained by the market power of organizations, individuals, and custom. There are rigidities throughout the structure, not merely at the bottom. More importantly, the number of individuals who become employed on jobs at wages above the minimum is not determined primarily by whether the wage rate is flexible or not, but by other factors.

In our alternative formulation the level of demand for labor is determined largely by the production and sales plans of business firms and the prevailing technology. It is likely that fluctuations in the wage rate have little impact on the demand for labor and are absorbed primarily by fluctuations in profit rates and price levels. Moreover, as has been accepted by macroeconomists since Keynes, the wage rate itself does not readily respond to the existence of excess supply except in rather unusual situations. Instead, wages are determined by a complex social process involving administrative procedures, bargaining, custom, etc.[23]

Moreover, in such a labor market there is no mechanism internal to the labor market to induce the levels of demand and supply to equilibrate. If production and sales goals are such that the aggregate demand for labor is less than the aggregate supply of labor there simply will be unemployment. This unemployment will persist until the production and sales goals change. Thus, under normal circumstances, some workers who

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[23]Swinton, Logic of Economic Discrimination.

have sufficient productive potential to work at the prevailing wage will be unemployed. Workers are thus in a competition for available jobs.[24]

These jobs, however, are not all equal. They are differentiated by working conditions and pay levels. Moreover, the jobs consist of different tasks which may require different types of skills for effective performance. Thus the primary function of labor markets is to match individuals to specific jobs. Individuals and firms care about the outcome of this matching process and can thus be expected to engage in tactics to achieve the best outcomes possible. How a given individual or group of individuals fares with respect to employment and unemployment depends on how well they come out in this job competition game. We thus turn to a discussion of the theory of this labor market matching game and its implications for racial differentials.

Job Finding Success and the Racial Employment Differentials

Relative employment levels are related to two principal factors. The first is success at finding jobs and the second is success at keeping jobs. Obviously the less (more) successful nonwhites are at getting and keeping jobs relative to whites, the higher (lower) will be the employment differential. Thus, differences in the relative employment experiences of nonwhites must be caused either by differences in their job-getting or their job-keeping ability.

Without minimizing the importance of job retention, we will focus our concern on the problem of getting jobs. Although higher job loss rates among nonwhite teenagers and young adults are a factor in explaining their

[24]Lester C. Thurow, Generating Inequality: Mechanisms of Distribution in the U.S. Economy (New York: Basic Books, 1975).

lower employment rates, the evidence from recent studies makes it clear that failure to find jobs is the principal factor explaining their disadvantaged employment situation.[25] It also is the principal factor for all groups during periods of slack labor market activity.

In a recent analysis Marston found that of the 3.90 percentage point difference in the average unemployment rates between blacks and whites during the period 1967 to 1973, 1.31 percentage points were attributable to the higher flow from employment to unemployment, 1.24 percentage points were attributable to the lower rate of job finding among new entrants and reentrants, and 1.14 percentage points werre attributable to a lower rate of job-finding success among previously employed people.[26] Thus, the contribution of a lower rate of success in finding jobs was almost twice as important as the higher rate of job loss.

Moreover, in view of the finding from a study by Mattila that nearly 60 percent of job losers find new jobs without ever experiencing unemployment, attributing the full 1.31 percentage points to differential job losing may well be unjustified.[27] It may well be the case that nonwhites

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[25]See Ralph E. Smith and Charles C. Holt, "A Job Search-Turnover Analysis of the Black-White Unemployment Ratio," in Proceedings of the Twenty-third Annual Winter Meeting, 1970, ed. Gerald G. Somers (Industrial Relations Research Association, 1971) for a discussion of the importance of job leaving. Also, see S. T. Marston, "Employment Instability and High Unemployment Rates," Brookings Economic Papers 1 (Washington, D.C.: The Brookings Institution, 1976).

[26]Marston, "Employment Instability," Table 4, p. 181. Also see R. G. Ehrenberg, "The Demographic Structure of Unemployment Rates and Labor Market Transition Probabilities" (Mimeographed, Cornell University) for a discussion of importance of job finding.

[27]J. P. Mattila, "Job Quitting and Frictional Unemployment," American Economic Review 64 (March 1974):235-239.

lose jobs at the same rate as whites but experience unemployment as a result of job loss more often. If this is true then some of the differential attributed to job losing is actually attributable to the failure of nonwhites to have as much success finding new jobs while still employed.

Marston's analysis also indicates that the failure to find jobs contributes much more to the explanation of the increase in nonwhite unemployment in slack labor markets than it does for whites, where job loss is the chief problem. Marston's analyses covered a period of relatively tight labor markets so the contribution of job attainment failure to the average unemployment differential is probably understated.[28]

It seems clear then that the principal cause of the overall higher unemployment rates of nonwhites is their much lower success at finding jobs. This conclusion holds with special force for teenagers and young adults. This conclusion provides us with a starting point for constructing an alternative theory of labor market operation.

While we know of no specific theoretical model of racial job finding differentials, economic theory does provide the elements with which to construct such a theory. Racial job finding differentials are an outcome of the matching operations in labor markets which result from two types of decisions. The first are decisions of firms concerning which individuals to hire (demand decisions). The second are decisions of individuals

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[28]This conjecture is supported by gross flow tabulations which indicate that the relative contribution of the lower rate of success attaining employment is higher for minorities in this more recent data which covers years of higher unemployment than earlier data. See Ralph E. Smith and Jean E. Vanski, Gross Change Data: The Neglected Data Base (Washington, D.C.: The Urban Institute, 1978).

concerning which jobs to seek (supply decisions). The decisions of firms concerning which individuals to hire and the decisions of individuals concerning which jobs to seek work together to determine the job-finding success of different demographic groups.

In the discussion which follows, we present a theory of how these decisions are made. It is a theory of "who" will be employed for a given demand and supply of workers. The theory will not be concerned with how many will be employed, although the level and composition of demand and supply implicitly help to determine who is employed. In this theory demand is determined by extra-labor market factors while supply is largely determined by demographic forces. Unlike the situation in the neoclassical model, in this model all individuals will not necessarily be employed in the normal course of events. However, some systematic forces do help to determine which individuals will be employed and which will be unemployed. These forces also evidently generate the racial differentials that are the subject of this paper.

There are a number of theoretical perspectives that contribute to understanding how the firm determines who to employ and how the individual determines where to seek work. These include the general theory of decision making for firms and individuals, the theory of discrimination, the theory of human capital, and the theory of search. The approach used here draws upon these theoretical perspectives in structuring a theory to guide the analysis of differential job-finding success rates.

A Theory of Personnel Selection (Demand). The general theory of firm decision making suggests that a firm may be thought of as an organization which has as its purpose the production of an output level at a minimum

cost. For any given technology and capital configuration, the production process is defined in a technical sense, and the number of tasks that will be required to achieve the goal will be determinable. These tasks will in general be grouped into jobs and this will determine the number and type of workers required.

If the firm's output was completely determined by the number of workers hired, there would be no need for the firm to determine who to hire. However, the cost of achieving the production goals will generally vary with the specific individuals assigned to given jobs. Liebenstein's efficiency concept, the human capital literature, the literature on ability, and the discrimination literature suggest why the particular individual assigned to different jobs matters for the firm's cost minimization efforts.

Theory suggests that the firm desires to hire the "best" people for its labor force. Best in this context means the set of workers that will enable the firm to achieve its objectives at a minimum cost. There are at least three dimensions along which best must be judged. First, there is the technical ability to do the task required by the job, which depends upon the technical qualifications of the worker. Second, there is the willingness to utilize that ability, which is determined by the motivation of the worker. And third, there is the impact of the individual on the other workers and on the firm's relationship with outsiders. This depends upon the personal characteristics and the behavior of individuals. Thus the firm will try to find individuals who have the best technical ability, who have the highest motivation, and who will have the best compatibility in the firm's environment.

There is no way to know for certain which individuals are "best" because the question concerns the impact of the individual on future cost. The firm will have, or be able to generate, certain information about individuals or groups of individuals which can be used by the firm to make a judgment about which individuals will be the best employees.

Since information is costly, the firm probably develops specific rules of thumb for translating readily available information into assessments of individual ability, motivation, and compatibility. These assessments can then be weighted and used to rank job applicants. Firms may differ in the sophistication that is used to derive the rules of thumb. One would suspect that larger firms will be able to develop more complex rules of thumb and apply more sophisticated devices in obtaining information. Moreover, the standards used by any given firm will also probably vary according to the characteristics of the supply pools and the nature of the particular job to be filled.

The rules of thumb may involve such characteristics as educational level, prior experience, performance on standard tests, recommendations, and personal references. The firm may also use race, sex, age, and other ascriptive characteristics as proxies for unknown factors affecting job performance. Once all the information has been compiled, the firm presumably weights all the factors and ranks the candidates. These rankings then determine the order in which the firm will make offers for employment.

Moreover, since the firm may have particular ideas about which personal characteristics are most useful, it may want to influence the types of individuals who apply. This can be attempted through the types of

information the firm makes available about its employment opportunities, and the way in which this information is circulated.

This is a brief version of the theory of how the firm decides to "whom" employment is offered. In brief, the firm offers employment to those whom it considers the best candidates, and uses a variety of rules of thumb based on information about the candidate and the job to make its determination as to who is the best candidate. It should be noted that nothing which has been said implies that the firm's ranking of candidates is correct or that the criteria or standards used are actually relevant to production. The firm adopts some set of procedures and if the results are satisfactory, then these rules will be maintained.

A Theory of Job Seeking (Supply). The job-seeking decisions of individuals determine the supply of individuals to each firm. The theory that is relevant here is the theory of individual decision making. This theory suggests that individuals should undertake the job-seeking activity which promises to maximize their utility. There has been a rather extensive recent literature examining the theory of optimum job-seeking strategies for individuals.[29] Whereas this literature has provided general inspiration for what follows, it cannot be directly applied to the concern for "who" will search at which firms. This question is hardly touched at all in the recent theoretical literature which tends to be mostly concerned with characterizing optimum search rules in general terms that abstract

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[29] See, e.g., recent surveys by: Steven A. Lippman and John J. McCall, "The Economics of Job Search: A Survey," Parts I and II, Economic Inquiry (June 1976 and September 1976); and Donald O. Parsons, "Models of Labor Market Turnover: A Theoretical and Empirical Survey," in Research in Labor Economics, Volume 1, edited by Ronald G. Ehrenberg, 1977.

from individual differences. Moreover, since the intention is not to derive an analytical solution to any model generated, the strict maximization assumption is not needed. Job seekers will be presumed to act on various rules of thumb which may or may not have optimal properties.

Individuals are assumed to seek satisfactory jobs. A satisfactory job is one which comes close to satisfying the individual's view of his or her potential including both earnings and nonwage terms of employment. An individual will apply for a job at a given firm if the individual believes that there is a job opening, that there is a possibility that the job will be offered to them, and that the expected gain from seeking the job--which depends on the likelihood of getting the job in combination with wage and working conditions--outweighs the cost of seeking the job.

If there were (1) no differences in jobs, (2) no differences in individuals, (3) no selectivity on the part of employers, (4) no differences in the probability of obtaining a job at different firms, and (5) no differences in the search cost; then the individual would not need a specific search strategy. In this case, the job seeker could obtain suitable job offers through a random search of all firms. Not only must at least one of the above differences exist in order to justify a specific search strategy, but the individual must have some awareness of the differences.

In general, jobs are differentiated by firms and occupations and an earnings hierarchy will exist across both occupations and firms. Thus the earnings that an individual can get depends upon the specific job (firm and occupation) which he obtains. In general, different occupations will require different qualifications, and the criteria, as well as the

standards for evaluating these qualifications, will vary across firms. Moreover, at any given time the availability of jobs will vary across firms. Finally, the cost of seeking a job will vary for each individual according to the location and other characteristics of the firm.

The job seeker will have to make a decision about which occupations to seek and which firms to visit. This decision will be based on the individual's information concerning the existence of vacancies, the criteria and standards used to assess qualifications, the search cost, and the wage. We would expect such knowledge to vary with prior labor market experience and thus the job-seeking behavior of inexperienced (youthful) workers will differ from that of workers with greater labor market knowledge. Since the individual knows his own characteristics, the individual will rank firms which have satisfactory jobs in order of the best prospects for successful search. Here "the best" can be characterized as the expected value of a visit--which is the probability of getting the job times the value of the job less the cost of search. The probability of getting a job at the firm will depend on the probability that a vacancy exists and the extent to which the individual's characteristics fit the firm's criteria. The individual will visit the firms in order of their rank. Individuals, like firms, will be expected to develop some rather general rules of thumb for making the assessments necessary to rank firms and thus their search procedures will not necessarily involve strict maximization.

These considerations determine the probability that any individual job seeker will apply at any given firm during a particular time period. The set of job seekers then determines the characteristics of the applicant

pool at any given firm. This theory of supply along with the theory of demand discussed above, constitutes our theory of who is offered employment. The supply theory determines who applies for any given job and the demand theory determines who among those applicants receives job offers. This theory provides a framework within which an explanation for the differential job-finding success rates can be derived.

Implications for Racial Differentials

The implications of this theory for explaining racial differences in job-finding success are rather straightforward. It is clear that success at finding jobs depends on two general factors. The first is personnel practices of business firms and the second is the job-search behavior of youthful workers. Minority youth can be disadvantaged because firm personnel practices exclude minority youth in disproportionate numbers or because minority youth engage in different patterns of search from majority youth.

If the first factor is a cause of existing differences, the probability of a minority youth being selected from a given pool of applicants would be less than the probability for a white youth. The theory suggests that personnel selection rules will be chosen so as to ensure that each firm gets what it judges to be the most suitable set of workers. As indicated, the criteria for selection will generally be based on the relationship between applicant characteristics and those characteristics thought to be possessed by the best workers. Thus, to the extent that race is a criterion used by firms or to the extent that the desirable nonracial characteristics are distributed in favor of whites, firm personnel practices will result in disadvantages for minority job

seekers. As noted earlier, the firm's notions about the relationship between individual characteristics and firm personnel objectives may not be accurate. Moreover, the firm may also choose nonracial characteristics in order to place minority workers at a disadvantage. Thus, in the case of uniform application rates across firms it is the firm's personnel practices and not the worker's search methods that are the ultimate source of the disadvantages of minority workers.

If the second factor is a determinant of the racial differences, minority youth will have a probability distribution over applicant pools that differs from the distribution for white youth. The search probabilities might differ because of differences in the nonracial characteristics of youth that affect the likelihood of getting a given job (and, therefore, the individual's decision to apply for the job) or because youths from different racial groups assess the probabilities of successful search differently. Again, the youth may be wrong about these assessments. However, it is also likely that minority youth adjust their search patterns to what they correctly perceive as discriminatory treatment by employers. Regardless of the accuracy of the youth's perception, there will be proportionately fewer minority youth in the applicant pools of these employers so that, even if the employer hires minority youth in proportion to their representation in the pool, fewer of them will be hired. In this case the characteristics of youth are not the direct cause of the differences in the search patterns. Rather, it is the search rules employed by these youth that generate different outcomes.

These two factors account for the primary ways in which the racial differentials in job-finding success rates may be generated. The net

contribution of each of the factors cannot be ascertained independently of knowledge of the actual search and selection procedures used by individuals and firms. It is easy to imagine particular configurations of characteristics, search behavior, and selection procedures that could lead to racial employment differences. In the final analysis, however, understanding the current level and trends in racial differentials in employment can only come from a specific empirical analysis. The theory, however, provides a useful guide for structuring a consideration of empirical evidence concerning the importance of various reasons for the persistent racial employment disparity.

REVIEW OF EVIDENCE FROM EXISTING STUDIES

Although knowledge of the roles played by racial differentials in job-search behavior and job-offer patterns in generating the disadvantages of minorities would be of obvious importance to policy makers, little research has been devoted to the issue. We are not aware of any studies which have attempted to measure differences in the rate of job offers between black and white youth. As a consequence, we are not able to reach any conclusion about the relative importance of differential hiring rates. Fortunately, there has been some work on the search behavior of minority youth. However, this work has not been directly concerned with measuring differences in search patterns. Rather, it has focused on measuring differences in search methods, in sources of information, and in labor market knowledge. In addition, information on the effects of differential access to employers based on industrial location, employability characteristics of youth, and labor force growth and competition is reviewed for its possible implications for minority employment.

Job-Search Methods

Data on job-search methods from the 1979 NLS Survey of Youth reveal few major differences in the percentages of black and white youth employing particular search methods.[30] Unemployed youths were asked which of a number of job-search methods they used during the four weeks prior to the NLS interview. The same question was asked of employed youths who looked for other work during the four weeks prior to the interview. The results for the two groups--unemployed and employed--appear in Tables 4 and 5. An examination of the data reveals minimal differences in the use of various job-search methods by unemployed black and white youth. Blacks did use friends and relatives less than whites, and relied on other methods slightly more. Among employed youths, the same differences appear but are slightly larger. In particular, black youth clearly made more use of state and private employment agencies.

In a local study of a sample of young male workers between the ages of 16 and 22 who resided in East Boston, Osterman offered the following general points about the youths' job-finding methods:

> . . .[What] is striking about these data is that when friends, parents, and relatives per job are summed, the jobs in our sample average well over one previous acquaintance per job. The Boston area is very large yet these youths do not move in an impersonal labor market. This is not simply a neighborhood phenomenon, 67% of the jobs in the sample were outside the neighborhood. Clearly part of the answer to the question. . .--how do youths enter such a large dense labor market and find their way--is that they move through channels already traveled by people they know.

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[30] Richard Santos, "Job Search Activities of Youth," in Pathways to the Future by Borus et al.

TABLE 4

PROPORTION OF UNEMPLOYED USING VARIOUS METHODS OF JOB SEARCH, BY SELECTED CHARACTERISTICS

Characteristic	State Employment Agency	Private Employment Agency	Contact Employer Directly	Friends or Relatives	Placed or Answered Ads	Looked in News-paper	School Employment Service	Other
Age								
16 to 17	6.6	2.6	66.3	19.7	6.0	30.9	10.4	9.2
18 to 19	20.7	6.0	65.3	15.4	7.9	38.5	3.2	9.2
20 to 22	24.6	5.0	61.2	13.2	8.7	40.1	1.5	14.3
Sex								
Female	15.9	4.2	62.2	14.2	9.6	41.8	5.6	10.4
Male	14.6	4.3	67.9	19.9	4.4	28.0	6.6	10.3
Race								
Black	17.4	4.6	66.5	14.0	9.5	32.7	5.9	9.5
Hispanic	15.3	3.0	63.6	21.3	5.5	28.6	8.3	11.4
White	14.5	4.2	64.3	17.5	6.5	37.3	5.9	10.6
Enrollment Status								
High School Dropout	22.8	5.5	67.9	14.1	4.7	37.7	0.0	10.7
High School Student	6.1	2.5	64.6	20.9	6.0	30.6	10.9	10.3
College Student	16.9	7.7	64.5	15.6	11.4	32.1	9.0	12.1
Nonenrolled High School Graduate	27.1	5.1	61.0	11.0	11.9	46.7	0.8	9.1
Total	15.3	4.2	64.8	16.8	7.2	35.5	6.1	10.4

UNIVERSE: Civilians age 16 to 22 who were unemployed on interview date (N=3,410,000).

SOURCE: "Job Search Activities of Youth," chapter nine in Pathways to the Future: A Longitudinal Study of Young Americans, ed. by Borus et al., 1979, p. 199.

TABLE 5

PERCENTAGE OF EMPLOYED YOUTHS USING VARIOUS JOB SEARCH METHODS, BY SELECTED CHARACTERISTICS

Characteristic	Nothing	State Employment Agency	Private Employment Agency	Contact Employer Directly	Friends or Relatives	Placed or Answered Ads	Looked in Newspaper	School Employment Service	Other
Age									
16 to 17	2.2	4.1	0.3	60.8	25.8	3.4	28.2	6.5	11.3
18 to 19	0.7	11.0	2.5	60.8	23.9	4.7	38.1	4.9	9.5
20 to 22	0.4	13.4	7.4	58.9	20.7	12.3	33.2	5.4	10.4
Sex									
Female	0.8	10.0	5.1	60.1	21.7	8.2	39.0	5.6	10.7
Male	1.2	10.1	2.5	60.0	24.5	6.2	28.9	5.4	10.0
Race									
Black	0.0	18.4	8.2	58.5	18.1	6.0	32.5	5.9	9.9
Hispanic	1.9	7.9	2.3	59.9	27.8	7.2	34.6	9.9	7.4
White	1.1	9.2	3.3	60.3	23.6	7.3	33.8	5.2	10.5
Enrollment Status									
High School Dropout	0.1	18.1	3.8	66.0	19.1	5.6	34.7	0.3	11.0
High School Student	2.5	3.2	0.4	59.6	27.4	2.3	26.0	7.6	12.5
College Student	0.7	6.0	0.3	61.3	26.4	8.1	30.5	14.7	13.3
Nonenrolled High School Graduate	0.4	14.5	8.3	57.3	19.7	11.2	41.2	0.6	6.6
Total	1.0	10.1	3.7	60.1	23.2	7.2	33.7	5.5	10.3

UNIVERSE: Employed civilians age 16 to 22 on interview date who looked for other jobs (N=3,370,000).

SOURCE: "Job Search Activities of Youth," chapter nine in Pathways to the Future: A Longitudinal Study of Young Americans, ed. by Borus et al., 1979, p. 203.

In this context Osterman reports a substantial difference in the use of parents and relatives as sources of job information by black and white youth. Black youth tended to make greater use of intermediary institutions and less use of relatives.[31]

While the limited evidence available provides some support for the hypothesis that there are differences in the rate of utilization of different labor market information sources, this type of finding can only provide a limited basis for infering differences in search patterns without more knowledge concerning the type of referrals received from each source. It is conceivable that similar search patterns can emerge despite the differences in sources of information. Thus, little can be concluded about the importance of information sources in shaping the job-search pattern.

Labor Market Knowledge

There is some evidence that there are differences in the amount of knowledge young blacks and whites may have about the labor market. There are some studies which suggest that such knowledge differences might influence search patterns and turnover rates. Parnes and Kohen conducted a longitudinal analysis of the labor market experience of noncollege youth, using data from the National Longitudinal Surveys (Parnes). Focusing on male and female youth who were between the ages of 16 and 21 in 1968, who were not enrolled in school in either 1968 or 1971, and who were not college students, the authors conclude that their findings "are consistent with the view that the extent of labor market information has an

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[31] Paul Osterman, Getting Started: The Youth Labor Market (Cambridge, Massachusetts: MIT Press, 1980).

independent influence on subsequent earnings and occupational status."[32] Andrisani, summarizing a large body of research based on the NLS (Parnes), concludes that adequate labor market knowledg is essential for the establishment of stable and successful employment careers. He found that the relationship between labor marke knowledge and stable and successful employment was "independent of individual differences among youths studied in a wide range of skills, abilities, and demographic characteristics. . . ." He also found that as youths make the transition from school to work, blacks, females, and poor white youths possess the least adequate knowledge. Neither of these studies explored the impact of this lack of labor market knowledge specifically on black youth unemployment or the widening gap between black and white youth.[33]

Residential Location

Another factor that has been explored in the literature is the residential location of the youth relative to the location of job opportunities. During the past several decades both the nonwhite and the white populations have become more urbanized. Over 65 percent of the white youth population and 75 percent of the black youth population were located in metropolitan areas in 1977. The black youth population was relatively more concentrated in poverty areas (48 percent versus 14 percent for white youth) and more concentrated in central cities (54 percent versus 22

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[32]Herbert S. Parnes and Andrew I. Kohen, "Labor Market Experience of Noncollege Youth: A Longitudinal Analysis, in From School to Work: Improving the Transition (Washington, D.C.: National Commission for Manpower Policy, 1976).

[33]Paul J. Andrisani, "Establishment of Stable and Successful Employment Careers" The Role of Work Attitudes and Labor Market Knowledge," in Conference Report on Youth Unemployment.

percent for white youth). Most of black employment and unemployment is located in central cities whereas the largest amount of white employment and unemployment is located in the suburbs.

It seems reasonable that youth who live in the central city would not apply to the same employers for jobs as youth who live in the suburbs. Thus in view of the wide racial differences in residential patterns one might expect racial differences in search patterns to emerge. However, the magnitude of the direct impact on search patterns is an unresolved empirical issue. Moreover, even if they existed, differential search patterns would only be disadvantageous to black youth to the extent that the firms to which they had access had significantly lower hiring to applicant rates than the firms to which white workers had access or if there were significantly fewer firms with entry-level jobs in the areas in which minority youth conducted their searches.

In this regard, the movement of industry out of the central city has been cited as a major cause of the worsening employment situation of minority youth. On the surface, the suburbanization argument would seem to make a great deal of sense. The argument only holds, however, if it can be shown that black youths residing outside of central cities fare better in the labor market compared to their white counterparts than do black youths residing in central cities. The unemployment rates and employment-population ratios by race and location presented in Table 6, however, do not support this notion. Within metropolitan areas, whether in central cities or suburbs, the unemployment rates of black teenagers were in ratios greater than two to one compared to white teenagers and their employment-population ratios generally less than one to two.

TABLE 6

EMPLOYMENT-POPULATION RATIOS AND UNEMPLOYMENT RATES
OF TEENAGERS BY RACE AND LOCATION, SECOND QUARTER 1977

Location	(1) Employment-Population Ratio		(3) Ratio	(4) Unemployment Rate		(6) Ratio
	Whites	Blacks	2/1	Whites	Blacks	5/4
Central City Poverty	36	16	.44	22	50	2.3
Central City Nonpoverty	50	21	.42	17	46	2.7
Suburb Poverty	43	19	.44	18	51	2.8
Suburb Nonpoverty	53	27	.51	15	33	2.2
Nonmetropolitan Poverty	46	26	.57	17	28	1.6
Nonmetropolitan Nonpoverty	52	31	.60	16	31	1.9
All Areas	51	22	.43	16	41	2.6

SOURCE: Employment and Training Report of the President, 1978; p. 73, table 3.

Though the debate as to whether the employment opportunities of blacks are curtailed by business suburbanization is long-standing,[34] empirical research on this subject is scarce. The one piece of empirical work of which we are aware that does address this issue is that by Osterman.[35] Using aggregate data from the 1960 and 1970 U.S. Decennial Censuses of Population, with Standard Metropolitan Statistical Areas as independent observations, Osterman estimated employment equations for 1960 and 1970 for four 16- to 19-year-old race-sex groups in order to examine the determinants of employment change for each group over this period. The particular variable construct used to capture the effects of employment suburbanization on these groups was the ratio of all the SMSAs' jobs located in the central city to jobs located outside the central city divided by the ratio of the population living in the central city to population living outside the central city. Osterman found this variable insignificant for all race-sex groups.

Employability

Perhaps a view that has commanded more popular support than any is the contention that the racial gap is caused by differences in the "employability" of black and white youth. Differences in the employability of black and white youth might be expected to have a direct impact on the

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[34]See John F. Kain, "Housing Segregation, Negro Employment, and Metropolitan Decentralization," Quarterly Journal of Economics 82 (May 1968) for an affirmative view; Paul Offner and Daniel Saks, "A Note on John Kain's Housing Segregation, Negro Employment, and Metropolitan Decentralization," Quarterly Journal of Economics 85 (February 1971) for the negative.

[35]Paul Osterman, "Racial Differentials in Male Youth Unemployment," in Conference Report on Youth Unemployment.

relative willingness of firms to hire blacks as well as on their search patterns. This is a rather difficult argument to assess because the term "employability" is vague and, surprisingly, there have been few direct empirical studies of this factor. Does employability refer only to factors shown to affect worker productivity or ability to perform the job tasks or does it also include such possible nonperformance-related characteristics as the prospective employee's speech patterns or mode of dress? Does employability refer only to employee characteristics that can be altered or to those which are immutable as well?

One component of "employability" is formal education. Here the trend in educational attainment has moved in the opposite direction to that in youth unemployment. The educational attainment of both black and white youth has increased over the past couple of decades; however, black educational attainment has increased at a much faster pace. Consequently, the median educational attainment of all nonwhites in the labor force has increased from 8.4 to 12.2 years between 1957 and 1977, compared to an increase from 12.1 to 12.6 for whites. Thus the gap of 3.7 years in the median educational attainment which existed in 1957 had declined to only .4 years by 1977. Since these figures are for the population as a whole, it is clear that the gap between youth cohorts must have narrowed even more.

Moreover, differences between black and white youth in educational attainment seem to account for very little of the employment differential. Table 7 shows the educational distribution and basic labor market statistics for out-of-school youth in 1977. A number of points are apparent from a review of these data: (1) the distribution of educational attainment is slightly lower for black nonenrolled youth, (2) the more

TABLE 7

EDUCATION AND EMPLOYMENT FOR OUT-OF-SCHOOL YOUTH, 1977

Years of School Completed	Percent Distribution of Population		Unemployment Rates		Employment-Population Ratios	
	White	Black	White	Black	White	Black
8 Years or Less	4.01	4.28	17.1	24.7	51.2	33.2
8 to 11 Years	15.11	25.18	16.3	30.6	59.2	44.2
High School	56.62	51.74	7.0	21.9	79.8	61.2
1 to 3 Years of College	15.92	14.04	4.5	16.5	84.3	70.0
4 or More Years of College	8.31	4.91	5.7	15.1	90.5	84.0
Total	100.00	100.00	8.3	23.1	56.1	76.0

SOURCE: "Towards Defining the Universe of Need for Youth Employment Policy," p. 15.

educated cohorts have both higher employment-population ratios and lower unemployment rates, and (3) the absolute racial disparities are lowest among the most highly educated youth. However, there are substantial racial differences in labor market position at all educational levels, and black college graduates just barely have a lower unemployment rate than white high school dropouts.

The quantity of education received is not the only factor to be considered. The quality of education may be important to employers also. Here again the trends indicate that blacks are doing slightly better relative to whites. Data from the National Assessment of Educational Progress on 17-year-olds still in school show that blacks, while still performing below the national average, increased their reading scores both absolutely and relative to those of whites.[36] While this does not prove conclusively that all blacks are getting an equal quality education, it certainly does not support a thesis of diverging trends in black and white educational achievement. Moreover, as noted earlier, "teen" jobs seem to require less, not more, facility with language and computation. However, these facts may not be known by or of interest to employers.

In spite of the trends noted above, differences in human capital endowments, however small, remain; and such differences can contribute to racial differences in employment outcomes at any point in time. The critical question is how much of the racial differential in youth unemployment, at a given point in time, can be attributed to differences in "background characteristics" or endowments?

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[36] National Assessment of Educational Progress, Three National Assessments of Reading: Changes in Performance, 1970-80 (Denver, Colorado: Education Commission of the States, 1981).

While there is now an extensive literature examining the composition of racial unemployment or employment differentials in general,[37] we know of only one such study that focuses specifically on racial unemployment differentials among youth. In order to get a sense of the magnitude of the contribution made by racial differences in background characteristics (which may or may not be associated with employability) to racial unemployment differentials among youth, Osterman estimated equations to explain the layoff rate, the quit rate, and the duration of unemployment.[38] These results were then used to assess the relative contribution of differences in background characteristics to explaining differences in the probability of layoff and of quiting and differences in the duration of a spell of unemployment. According to Osterman about 50 percent of the racial differential could be attributed to background characteristics. However, our interpretation of Osterman's findings suggest that none of the gap could actually be attributed to differences in the characteristics included in his model. This conclusion is based on his results that both the probability of quits and duration of a spell of unemployment for black youth would be significantly less than the actual

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[37] E.g., Bennett Harrison, Education Training and the Urban Ghetto (Baltimore, Maryland: Johns Hopkins University Press, 1972); Joan Gustafson Haworth et al., "Earnings, Productivity, and Changes in Employment Discrimination During the 1960s," American Economic Review 65 (March 1975):158-68; Farrell E. Bloch and Sharon P. Smith, "Human Capital and Labor Market Employment: Errata and Extension," Communications 14 (Spring 1979):267-69.

[38] Osterman, "Racial Differentials." Osterman's equations included variables for: age, knowledge of the world of work, years of education, number of dependents, draft status, marital status, unemployment insurance wage replacement rate, nonlabor income, local unemployment rate, change in local unemployment rate, and variables which describe the nature of the unemployment spell.

white rates if blacks were treated the same as whites. The probability of layoff for black males would only be marginally higher than the probability for white males and not enough to offset the favorable impact of black characteristics on quits and duration of unemployment. Thus in our interpretation this study indicates that little if any of the gap can be attributed to background characteristics believed to determine employability.

Differential Population Growth Rates, Increased Competition from Other Groups

Another factor which would affect job offer and hire rates is increased competition from individuals with similar characteristics. It is true that the black youth population has grown at a higher rate than the white youth population over the post-World War II period. However, while the largest baby boom cohorts were born in the late 1950s and early 1960s thereby entering the labor market in the early 1970s, a substantial proportion of the deterioration in the labor market position of black youth relative to white youth occurred during the 1950s and 1960s. The timing of birth of the largest youth cohorts does not square well then with periods of considerable deterioration. But granted that there has been considerable deterioration in black youths' relative labor market position in the 1970s, how might this be due to relatively high population growth rates? One possibility is that the labor market operates in accord with the queue theory.[39] According to this formulation, black workers are relegated to the end of the labor supply queue by employers who prefer

[39] Thurow, Generating Inequality, and Swinton, Logic of Economic Discrimination.

hiring whites, hiring blacks only when qualified whites are scarce. Under such circumstances, any increase in the white youth population will leave employers with less need to hire black youth since white youth will be plentiful. Greater relative increases in the black youth cohort size will thus disproportionately harm blacks in the absence of an overall increase in jobs sufficient to accommodate all who seek work. Ideally then we would like to know the effects of increased white youth labor force participation on the employment of black youth.

Although we know of no direct tests of such effects, Wachter and Kim have attempted to determine the effects of "cohort overcrowding" on changes in unemployment rates for 18 age-race-groups.[40] Their work focused on the effect that the change in the youth relative to the adult population has had on increasing youth unemployment rates. They found that the variable used to capture the cohort overcrowding effect tended to be strongest in female and white male equations and weakest in black male equations and that this pattern appeared with consistency regardless of the exact specification or sample period used. Wachter and Kim concluded that while there was evidence of overcrowding in some groups, in the case of the black male 16- to 24-year-old age group, the increase in youth relative to adult unemployment rates over the period they examined could not be attributed to labor supply factors and must be attributable to demand factors.

In addition to increased relative population growth, increased competition from other demographic groups (e.g., women and undocumented

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[40]Michael L. Wachter and Choong-soo Kim, "Time Series Changes in Youth Joblessness," NBER Conference on Youth Unemployment (Cambridge, Massachusetts, May 1979).

aliens) would only exert differential pressure on black and white youth employment in the presence of a labor market queue. In this instance the group most recently active in the labor market may be thought to displace black youth either directly or indirectly; directly by competing for and acquiring jobs which black youth would normally acquire, or indirectly by possibly competing with and displacing white youth who in turn compete with and displace black youth. This displacement will result in a disproportionate increase in unemployment among black youth if there are not enough jobs available to accommodate them or if the jobs which are available are lacking in attributes the youth find acceptable.

Again, we do not know of any empirical work that has produced estimates of the magnitude of direct or indirect displacement of employment opportunities for black youth by adult women or undocumented aliens. Grant and Hammermesh, focusing on employment in the manufacturing sector in 1970, provide cross-section evidence that adult women and youths are viewed as substitutes by employers. They do not demonstrate that adult women exert a disproportionate effect on employment opportunities for black youth.[41] Osterman, using 1960 and 1970 SMSA data to estimate employment equations for black and white male and female youth found that the adult women's wage variable included in these equations was insignificant for all youth race-sex groups in 1960 but was positive and significant in black male and female youth equations while insignificant in both white youth equations in

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[41]James H. Grant and Daniel S. Hammermesh, "Labor-Market Competition Among Youths, White Women, and Others," Econometrics Workshop Paper No. 7910, Michigan State University, February 1980.

1979.[42] He concluded that "employers evidently do not substitute women for white youth (or vice versa) but do so for blacks. The clear implication of this is that the rise in the labor force participation of adult women has had a detrimental effect on black teenage employment." Again, Osterman provides no estimates of the order of magnitudes of these effects.

Summary

The above discussion suggests that none of the objective factors that might be expected to affect search behavior or hiring patterns appear capable of accounting for much of the racial differences in the employment and unemployment rates or the growth in the differential. This suggests that whatever differences exist in search behavior or hiring patterns are not necessarily consequences of the objective characteristics and circumstances of black youth. This suggests that the cause of black youth unemployment is intimately tied up with the race of the youth. Either black youth search differently or are treated differently because of factors associated with their race. Unfortunately, there have been no direct studies of discriminatory treatment or racial behavior differences. Consequently, the proportion of the disparity in employment and unemployment rates that emanates from the impact of race on search behavior and hiring patterns cannot be assessed.

The literature that we have reviewed is consistent with the race factor bearing the brunt of the explanation for racial disparities in employment. While most authors associate this impact with discrimination,

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[42]Paul Osterman, "The Causes of the Worsening Employment Situation of Black Youth," Report prepared for the Assistant Secretary for Policy Development and Research, U.S. Department of Labor, May 1979.

the role of discrimination cannot be isolated in existing empirical research. The available studies tend to be observations of demand-supply interactions and therefore are not capable of separating discrimination from other factors. More precise answers to the role and relative importance of the race factor and its impacts must await better specified empirical studies.

CONCLUSION

This paper began with a presentation of the evidence on the high and worsening unemployment rates for black youth. The unemployment rates of blacks, which were high in 1958, have increased both absolutely and relative to whites over the past twenty-five years. Differentials between white and black youth remain when adjustments are made for location, school enrollment status, and educational attainment.

Attempts to explain this phenomenon have focused on factors such as attitudes and employability factors, the rising minimum wage, job search, industrial relocation, and increased competition. These arguments were reviewed and the existing empirical evidence was analyzed for possible confirmation of the hypotheses. Only two hypotheses seem to be consistent with the existing evidence--either black youth search differently for jobs or they are treated differently by prospective employers. Unfortunately, it is not possible, given the information available, to ascertain which factor is more important in explaining racial differentials. However, a few observations appear warranted.

The trend toward greater racial differences over the past three decades would be readily understandable if either the search patterns of

black youth diverged sharply from the search patterns of white youth during this period or if the hiring practices of employers resulted in increased divergence between the rates of hire for white and black youth. It is unlikely that differences in employability or job-search methods can explain the growing gap. If anything, converging educational attainment would suggest they might narrow. Nor could we account for changes in these patterns attributable to locational factors, labor market knowledge, or willingness to work. It seems likely that whatever factors sparked the changes in the relative position of black youth, these factors did not emanate from changes in the youth themselves.

The secular trend can be understood if preferences for white workers lead employers to engage in differential treatment. The impact of this race factor on the employment of blacks would clearly depend on the relative demand for labor. Clearly if the demand for labor is high relative to the supply of whites then the relative employment of blacks would be higher. This would suggest that the secular trend in black youth employment may have been generated by racial preferences operating in the context of a decline in the level of demand for labor relative to supply. This would suggest that the secular trend has been induced by a rate of growth in entry level employment opportunities that has not been large enough to keep up with the rate of growth in the supply of new workers.

Although employment growth has been fairly brisk during the past two to three decades, the rate of growth of the supply of new workers may have been even faster. The principal factor underlying this rapid expansion in the supply of workers has been the rapid increase in the rate of labor force participation of white women and white teenagers of both sexes. The

white female labor force participation rate increased from 33 percent of their population in 1954 to 51 percent of their population by 1979 and the white teenage participation rate increased from 46 to 58 percent of their population over the same period. Although these increases were offset somewhat by declines in white male participation rates these declines were not sufficient to prevent total labor force participation from increasing from 60 to 64 percent of the population between 1954 and 1978.

The net effect of this rapid increase in supply has been a steady upward drift in the level of unemployment--a fact that has been widely recognized by some macroeconomists. In accordance with this scenario the increasing availability of young white workers and adult white women has led to the increasing difficulty experienced by young black workers in obtaining jobs. It is likely that without the intervention of employment and training programs and equal opportunity/affirmative action programs, the situation for young black workers would have deteriorated even more sharply.

While this argument is consistent with existing evidence and has certain intuitive appeal, it cannot be proven from the research that has been done to date. The challenge, then, is to structure new studies in a way that can separate out the effects of differential search methods by youth from differential treatment by employers.